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C O N F I D E N T I A L SECTION 01 OF 03 ANKARA 006396

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S/P FOR STEVE HELLMAN

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SUBJECT: TURKEY READY FOR 3-WAY MEETING ON AZERI GAS

REF: A. ANKARA 6079

[B.](#) ANKARA 5896

Classified By: AMBASSADOR ROSS WILSON FOR REASONS 1.5 (B AND D)

¶11. (C) SUMMARY: Turkish Energy Minister Guler agreed with Ambassador that Turkey, Azerbaijan, and Georgia should meet as soon as possible to begin working out short term solutions to ensure natural gas supplies for this winter in the face of strong Russian pressure on all of them. Guler stressed that while Turkey can play a leading role in crafting a solution, it cannot be expected to bear all the financial costs. He said, however, that he would consider agreeing to postpone Turkey's receipt of some contracted gas for 2007 to future years. The minister stressed the importance of U.S. leadership. Guler is eager to arrange a working group on Iraqi gas, starting with a meeting of experts from Washington, Baghdad, and Ankara (time and place TBD). He touched briefly on Samsun-Ceyhan. End Summary.

Threats and Uncertainties about Gas

¶12. (C) In a November 9 meeting, Energy Minister Hilmi Guler told Ambassador that the situation for natural gas from Azerbaijan looked perilous, given Russian threats to both Azerbaijan and Georgia to reduce or cut off their gas supply.

He said the Georgian Energy Minister had suggested his government might even fall over this issue. The Minister confirmed that Azeri DPM Abid Sharifov had met with him the previous week and had proposed that Turkey and Georgia each receive only 750 MCM in 2007 out of Turkey's Shah Deniz commitment of 2.8 BCM at \$110 pcf. He said this proposal had also been conveyed by official letters: Georgian PM to his Turkish counterpart and Azeri DPM to Minister Guler.

¶13. (C) Guler emphasized that Turkey had been counting on receiving its contracted amount and it was particularly concerned about peak need in the winter. He had not discussed details of the proposal with PM Erdogan, but he

would be prepared to consider recommending that Turkey transfer some of its rights under the contract to future years. However, Guler also expressed great discomfort over the costs and liabilities Turkey could have to shoulder and made clear his country could not do so alone. He noted that the contract counterpart was the Shah Deniz consortium, not the sovereign government of Azerbaijan. Guler cautioned that BOTAS was under financial pressure from government policy to keep consumer prices low to encourage extension of gas in Turkey, so it would be difficult for BOTAS to deal with more expensive wholesale natural gas.

Short and Long Term Solutions

¶4. (C) Ambassador stressed the need for the three countries to meet as soon as possible to reconcile conflicting information on volumes, parameters, and alternatives, and move forward on solutions. He identified our mutual strategic goals: 1) long term - make the southern gas corridor work to ensure that Russia cannot succeed in bottling up Caspian gas flows to Europe via Turkey; and 2) short term - ensure that Georgia and Azerbaijan make it through this and the next few winters. As we had urged before, Turkey must play a leadership role, even as it also worked with others to ensure that costs and benefits are equitably shared.

¶5. (C) Ambassador stressed the importance of developing varied options. For example, Georgia may have a variety of ways to solve its problems with different associated costs; switching to heavy fuel oil is one example. Guler noted that he had offered to provide coal to Georgia for this winter,

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but Georgia was not interested. Both agreed that Georgia was very nervous - perhaps overly nervous - as it watched Russia-Azerbaijan and Russia-Turkey gas negotiations for 2007 unfold. Ambassador suggested that the three countries should eschew simplistic proposals, develop an overarching approach that makes sense, and then work out the commercial details.

¶6. (C) Guler emphasized that there were three separate issues: gas volumes, money, and time, stressing that time is being lost without concrete actions. Repeating a regular theme, the Minister called for the USG to be more visible in helping the region counter the Russian threat. He noted that a sensitive election year was approaching for Turkey and the pressure of gas shortages this winter could not be compensated by words alone. Guler said he was investigating alternative gas sources such as LNG via a newly commissioned facility at Izmir, but the spot market for LNG is extremely expensive.

Trilateral Working Group on Iraqi Gas

¶7. (C) Passing to alternative supply sources like Turkmenistan and Iraq, the Minister noted that he had discussed his proposal for a trilateral working group on Iraqi gas with EUR DAS Bryza. Ambassador said that everyone now seemed agreed to this meeting. Guler agreed to the suggestion that staffs work urgently to schedule the U.S.-Turkey-Iraq gas trilateral late this year or early in ¶2007. He deferred judgment on which Iraqis should participate to us. Guler said he did not know if the coming visit of PM Maliki would include the Oil Minister; it was not clear if this would be an opportunity to "preview" at a senior level, before launching the group later with experts from Baghdad, Ankara, and Washington.

Plug for Samsun-Ceyhan

¶ 8. (C) Guler raised oft-repeated arguments about Samsun-Ceyhan as the best Bosphorus bypass option, lamented the lack of USG support for this project, and hinted of linkages to gas projects (e.g., more gas coming from Russia).

Guler criticized Chevron for playing back and forth (with respect to Samsun-Ceyhan and Burgas-Alexandropoulos). Ambassador repeated the USG position on neutrality with respect to a particular bypass project. He also cautioned Guler on Russian tactics. Moscow may use Samsun-Ceyhan to get an advantageous gas deal that would kill the southern gas corridor and then abandon it.

¶ 9. (C) Ending with alternative metaphors, Guler said that negotiating with the Russians was like biting each others' fingers and seeing who gives up first. He said that his finger was hurting. Ambassador referred to a recent Harlem Globetrotters game he and Guler enjoyed recently: the Russians will keep winning unless there is competition. Qualifying his response, Guler said, "in the long term, I agree with your vision; short term, my finger hurts." However, he said he sought to work with the U.S. to solve the problems and take joint action "without suspicion".

Consortium Comment - First Politics - Then Commercial

¶ 10. (C) In a separate meeting with the economic section, Statoil rep Per Myrvang, representing the Shah Deniz consortium and referring to this winter's woes, said that there needed to be a clear separation between an initial political meeting between the countries to gain a political solution and a separate step to work out the commercial arrangements. He was concerned that politicians were

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meddling too much in the commercial aspects, particularly in Baku. Myrvang said that the consortium and BOTAS had still not reached agreement on the "run-in" period for South Caucasus Pipeline start-up. He admitted that both the Shah Deniz field and the Turkish spur were not ready due to delays and technical problems. He estimated that there could be a January 2007 start, but the Georgian problem had overwhelmed the start-up negotiations.

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